

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MARCH 30, 2004**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, March 30, 2004, commencing at 7:05 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hitchcock, Howard, and Mayor Hansen

Absent: Council Members – Land

Also Present: City Manager Flynn, Interim City Attorney Schwabauer, and City Clerk Blackston

B. CITY COUNCIL CALENDAR UPDATE

City Clerk Blackston reviewed the weekly calendar (filed).

C. TOPIC(S)

C-1 "Water/wastewater financing and rates"

Public Works Director Prima reported that Phase 1 of the improvements to the White Slough Water Pollution Control Facility is nearing completion. Phase 2, which includes installation of the tertiary filters and UV disinfection equipment and other aeration improvements, is currently out to bid. He noted that the facility is served by Pacific Gas & Electric through contracts with Northern California Power Agency and Lodi Electric; however, major upgrading needs to be done to the lines. Staff anticipates difficulties in meeting discharge standards and are considering alternatives such as total land disposal.

John Farnkopf, Senior Vice President of Hilton Farnkopf & Hobson, reviewed the wastewater rate study tables (all filed). Referencing table one, he noted that a 1% growth in the community was projected. An adjustment for the in-lieu of tax transfer to the General Fund was made, which shows it at the 12% level and declining to 9% by the end of the period. The assumptions were built into table one, which projects the revenue requirements. It began with the City's current budget and using escalation factors, calculates the amounts through fiscal year 2011-12. It nets out non-operating revenue and arrives at the amount of revenue that is required from rates. Row 15 shows a 25% increase projected for May 2004 and 25% for July 1, 2005. Rate increases then taper off to inflationary levels to keep up with the assumptions.

The rate increases shown in table three cover the annual revenue requirements and maintain the target fund balances. There are occasions where the amount is above target; however, at the end of the projection period it is very close. The Impact Fund (00173) contemplates an increase in the impact fees in 2004-05.

In answer to Council inquiries, Mr. Prima explained that in order to do the financing the City had to meet an additional bonds test tied to the current bond. When the Operations Fund (00170), Capital Outlays (00171), and White Slough Capital Fund (00172) are combined the balance is 101%. Mr. Prima assured Council that this financing is not to "fix any past issues"; it is strictly to meet the permit requirements.

Addressing City Manager Flynn, Mayor Pro Tempore Beckman asked how much cash was missing from the Wastewater Fund due to transfers (such as for transit) and whether the proposed rates are factored to replenish the transfer amounts.

Mr. Flynn replied that on June 30 an accounting entry is made and cash is distributed. On July 1 the Finance Department reverses the entry. He explained that the deficit was due to a transit grant that was not received. He confirmed that the proposed rates are not affected by the transfers.

In reference to the transfer issue, Council Member Hitchcock recalled that it amounted to \$9 million and asked the City Manager to provide Council with an itemized accounting.

Alex Burnett, financial advisor from the firm of Public Financial Management, explained that major financings for an enterprise require revenues to be sufficient to meet ongoing maximum annual debt service. Rates and revenues will be higher in the beginning and will over time come in line with expenses. He recalled that Phase 1 was funded through the California Statewide Communities Development Authority bond pool. The proposed Phase 2 financing is for \$25 million for a term of 20 years with a fixed rate. Phase 3 financing would occur in 2006 and include the potential refunding of the 1991 Certificates of Participation (COPs). Mr. Burnett stated that George Wolfe of First Albany is the proposed underwriter who would negotiate the placement and sale.

Mr. Burnett distributed a 13-page packet of material entitled, "White Slough Water Pollution Control Facility and Related Financing" (filed). Referencing page 6, he explained that the revenue bond index is a proxy for long-term tax-exempt rates and is published weekly. As of March 12 the index was 4.75, which is the lowest it has ever been in 25 years. Page 7 shows the structure of the debt service after the proposed issuance of the 2004 financing. It does not incorporate the proposed 2006 financing. The 2003 bonds represent a small share. Page 8 includes two sets of legal covenants related to the 1991 COPs, as well as the 2003 and proposed 2004 COPs. These include: 1) the rate covenant, which is the requirement to set annual revenues to meet annual expenses, and, 2) the additional bonds test. Under the additional bonds test is a concept called "adjusted net revenues." "Net revenues" is the gross amount less operations and maintenance. The 1991 covenants do not allow connection fees to be included in the calculation. In calculating net revenues for 2003 there is some question about whether the General Fund transfer is included as part of operations and maintenance. The rate covenants listed on page 10 assume a 20-year level debt service, which includes the projected rate increases of 25% this year, 25% in 2005-06, and 3% thereafter. Mr. Burnett stated that the projected rate increases contemplate the 2006 financing, but not the 1991 refunding. System net revenues were calculated at \$3.1 million. The 1991 COPs require an adjustment for connection fees of almost \$1.4 million, which leaves only \$1.7 million of revenues for purposes of meeting the additional bonds test. Roughly \$1.5 million is the estimated impact from the rate increase, which is allowed to be taken into consideration for purposes of the additional bonds test. Mr. Burnett reported that the amount is \$3.243 million with the rate increase, and the requirement is \$3.117 million.

Council Member Howard asked whether additional rate increases will be proposed at the time of the projected 2006 financing.

Mr. Prima replied that it would be contingent upon: 1) the project costs coming in as estimated, 2) interest rates remaining low, and 3) impacts resulting from the next permit.

Council Member Howard recalled that Council had expressed a desire to keep the in-lieu of tax transfer "revenue neutral" and asked whether this has been accounted for, to which Mr. Prima answered in the affirmative.

Mr. Burnett reported that a meeting with the rating agencies has been scheduled for April 22. Final action by Council is anticipated on April 27, subsequent to which a week of pre-marketing of the bonds would occur, with the sale taking place on May 11 and the close one week later.

Mr. Prima reiterated that the Phase 2 project is currently out to bid and staff hopes to have it awarded in early May. The current permit has a condition to have the filters on-line at the end of May. Staff has sent a letter to the Regional Board requesting an extension to January 2005 to have the new permit conditions applied to the City. Staff will return to Council to discuss the impact mitigation fees (AKA connection fees) in June or July 2004. Mr. Prima reported that the public notice of proposed increases to monthly water, sewer, and refuse rates and charges included a statement that all rates may be increased by an amount up to the percentage increase in the Consumer Price Index on July 1, 2005, and each following year as needed. This will be part of what Council will consider at the public hearing scheduled for April 27, 2004.

D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

E. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:25 a.m.

ATTEST:

Susan J. Blackston
City Clerk